

December 11, 2003

VIA EMAIL ONLY

**RE: I/M/O the Petition of the Mount Holly Water Company for an Increase
in Rates for Water Service and Other Tariff Modifications
BPU Docket No. WR03070509
OAL Docket No. PUCRL 07280-2003N**

TO SERVICE LIST MEMBERS:

Enclosed please find electronic copies of the direct testimonies of the Division of the Ratepayer Advocate's witnesses, Robert J. Henkes, James A. Rothschild, Barbara R. Alexander, Howard J. Woods, and Brian Kalcic, in connection with the above referenced matter.

Should you require anything further, please do not hesitate to contact our office.

Very truly yours,
SEEMA M. SINGH, ESQ.
RATEPAYER ADVOCATE

By: _____
Robert J. Brabston, Esq.
Deputy Ratepayer Advocate

RJB/slc

**BEFORE THE STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES
OFFICE OF ADMINISTRATIVE LAW**

**IN THE MATTER OF THE PETITION)
OF THE MOUNT HOLLY WATER) BPU Docket No. WR03070509
COMPANY FOR APPROVAL OF AN) OAL Docket No. PUCRL 07280-2003N
INCREASE IN RATES FOR WATER)
SERVICE AND OTHER TARIFF)
MODIFICATIONS)**

**DIRECT TESTIMONY AND EXHIBITS OF BRIAN KALCIC
ON BEHALF OF THE
NEW JERSEY DIVISION OF THE RATEPAYER ADVOCATE**

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Filed: December 1, 2003

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. Brian Kalcic, 225 S. Meramec Avenue, Suite 720, St. Louis, Missouri 63105.

3

4 **Q. WHAT IS YOUR OCCUPATION?**

5 A. I am an economist and consultant in the field of public utility regulation, and principal of
6 Excel Consulting. My qualifications are described in the Appendix to this testimony.

7

8 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?**

9 A. I am testifying on behalf of the New Jersey Division of the Ratepayer Advocate
10 ("Ratepayer Advocate").

11

12 **Q. WHAT IS THE SUBJECT OF YOUR TESTIMONY?**

13 A. I have been asked by the Ratepayer Advocate to review the current rate structure of The
14 Mount Holly Water Company ("Mount Holly" or "Company") and to derive an
15 appropriate rate design that reflects the Ratepayer Advocate's recommended revenue
16 requirement in this proceeding.

17

18 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

1 A. Based upon my review of the Company's existing rate structure, I recommend that Your
2 Honor and the New Jersey Board of Public Utilities ("Board" or "BPU") order Mount
3 Holly:

4

5 • to implement the Ratepayer Advocate's recommended revenue distribution which
6 provides for an overall *decrease* in total revenues of 9.1%; and

7

8 • to incorporate the Ratepayer Advocate's recommended rate design which reflects
9 a further consolidation of the Company's General Metered Service and Fire
10 Protection Service tariffs.

11

12 **Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?**

13 A. Section I of my testimony reviews the Company's existing rate structure and proposed
14 rate design. Section II presents the Ratepayer Advocate's recommended revenue
15 distribution and rate design.

16

17 **I. Mount Holly Rate Structure Proposals**

18

19 **Q. MR. KALCIC, PLEASE DESCRIBE MOUNT HOLLY'S PRESENT RATE**
20 **STRUCTURE.**

1 A. Mount Holly currently provides service to general metered, private fire protection and
2 public fire protection customers. General Metered Service (GMS) customers are served
3 via four separate rate schedules (i.e., the Mount Holly, Plumstead, Southampton and
4 Homestead districts). Each rate district currently exhibits distinct consumption charges.
5 Facilities (or customer) charges are equal across the Mount Holly, Plumstead and
6 Southampton districts, but the corresponding charges are higher in Homestead.

7 Public Fire Protection customers are currently served via two separate rate
8 schedules – one for the Homestead district and another for all non-Homestead customers.
9 Each rate schedule exhibits distinct hydrant and inch foot charges. Similarly, Mount Holly
10 currently maintains two separate private fire protection rate schedules, with distinct
11 connection and hydrants charges.

12
13 **Q. HOW DOES THE COMPANY PROPOSE TO RECOVER ITS REQUESTED**
14 **REVENUE INCREASE IN THIS PROCEEDING?**

15 A. Schedule BK-1 summarized the Company's proposed class revenue distribution. As Mr.
16 Prettyman explains on page 8 of his testimony, the Company would assign an across-the-
17 board increase to the *overall* GMS, private fire service and public fire service classes
18 (i.e., lines 5-7 of Schedule BK-1). However, the actual increases experienced by
19 individual GMS and fire protection customers would vary across districts, in accordance
20 with Mount Holly's rate consolidation proposals.

21

1 **Q. PLEASE DESCRIBE THE COMPANY’S RATE CONSOLIDATION**
2 **PROPOSALS.**

3 A. Consistent with Mount Holly’s goal of equalizing all rates across districts, Mr. Prettyman
4 proposes to equalize the fixed service charges paid by all GMS customers, and to level
5 the GMS consumption charges applicable to all districts except Southampton. As a
6 result, the average GMS increase would vary by district, from a low of 5.71%
7 (Homestead) to a high of 30.68% (Plumstead). Public fire customers would continue to
8 be served via two separate rate schedules, but the Company’s proposed rate design
9 would provide movement toward the goal of single-tariff pricing with respect to both
10 hydrant and inch foot charges.

11 Finally, Mount Holly proposes to assign an across-the-board increase to all
12 existing private fire protection connection charges, but not to its corresponding hydrant
13 charges. As a result, only the hydrant charge portion of its private fire protection rate
14 schedules would exhibit movement toward equalized rates at the conclusion of this
15 proceeding.

16
17 **Q. MR. KALCIC, IN YOUR OPINION, IS THE COMPANY'S GOAL OF**
18 **EQUALIZING GMS AND FIRE SERVICE RATES ACROSS DISTRICTS**
19 **REASONABLE?**

20 A. Yes. In the long run, all customers will benefit from the implementation of uniform or
21 single-tariff pricing. Single-tariff pricing establishes the broadest possible customer base

1 over which to recover a utility's revenue requirement. As a result, the large district-by-
2 district rate fluctuations that would otherwise occur over time (in the normal course of
3 completing district-specific projects) will be minimized.

4
5
6
7 **II. Recommended Rate Structure**

8
9 **Q. MR. KALCIC, WHAT IS YOUR RECOMMENDED CLASS REVENUE**
10 **DISTRIBUTION IN THIS PROCEEDING?**

11 A. The Ratepayer Advocate's recommended revenue distribution is shown in Schedule BK-
12 2. The revenues at present rates shown in column 1 of Schedule BK-2 correspond to
13 those contained in Mr. Henkes' Schedule RJH-7. The recommended class increases
14 shown on lines 5-7 of Schedule BK-2 are derived from applying an across-the-board
15 decrease of 9.1% to present sales revenues, so as to produce the Ratepayer Advocate's
16 overall recommended revenue decrease of \$635,000 (per Schedule RJH-1).

17
18 **Q. HOW DOES YOUR RECOMMENDED REVENUE DISTRIBUTION DIFFER**
19 **FROM MOUNT HOLLY'S PROPOSAL?**

20 A. On an aggregate class basis, my recommended revenue distribution is inherently the same
21 as the Company's, i.e., it reflects an across-the-board revenue adjustment. However,

1 within individual customer classes, my *relative* district revenue adjustments vary from
2 Mount Holly's results. This outcome is due principally to the fact that my recommended
3 rate design seeks to move toward consolidated rates within the context of an overall
4 revenue decrease.

5

6 **Q. MR. KALCIC, HAVE YOU DEVELOPED RATES TO IMPLEMENT YOUR**
7 **RECOMMENDED REVENUE DISTRIBUTION?**

8 A. Yes. Schedule BK-3 shows my recommended rate design and proof of revenue.

9

10 **Q. WILL YOU PLEASE DESCRIBE THE FORMAT OF SCHEDULE BK-3, PAGE**
11 **1 OF 2?**

12 A. Yes. Present rate revenue is derived in column 3 from the class billing determinants and
13 present rates shown in columns 1 and 2, respectively.¹ The Ratepayer Advocate's
14 recommended rates are shown in column 4. Column 5 shows the annual class revenues
15 produced by the recommended rates in column 4. Finally, column 6 shows my
16 recommended percentage increase to individual tariff components and class revenue
17 levels.

18

19 **Q. HOW DID YOU DETERMINE THE RATEPAYER ADVOCATE'S**
20 **RECOMMENDED FACILITIES CHARGES THAT ARE SHOWN ON**
21 **SCHEDULE BK-3, PAGE 2 OF 2?**

1 A. As shown on Schedule BK-3, page 2 of 2, I recommend no change to the present level
2 of the Mount Holly, Plumstead or Southampton facilities charges, which are currently
3 equalized. However, in order to consolidate all GMS facilities charges, I reduced the
4 existing Homestead facilities charges to the current Mount Holly level.

5

6 **Q. HOW DID YOU DETERMINE THE RATEPAYER ADVOCATE'S**
7 **RECOMMENDED GMS CONSUMPTION CHARGES THAT ARE SHOWN**
8 **ON SCHEDULE BK-3, PAGE 1 OF 2?**

9 A. Presently, the Southampton consumption charge of \$2.44 per thousand gallons is
10 considerably below than that of any other district. Accordingly, my recommended rate
11 design leaves the Southampton consumption charge unchanged and reduces all remaining
12 consumption charges from the top down so as to implement the overall GMS target
13 decrease of 9.1% shown on line 5 of Schedule BK-2. This approach results in an
14 equalized consumption charge of \$2.9294 per thousand gallons for all non-Southampton
15 districts.

16

17 **Q. PLEASE DISCUSS YOUR RECOMMENDED PUBLIC FIRE SERVICE**
18 **RATES.**

19 A. My recommended public fire rates would consolidate all public fire service customers on
20 a single rate schedule. To derive the rates, I first reduced the Homestead hydrant charge

¹ Class billing determinants were provided in Mount Holly's response to RAR-RD-1.

1 to the existing statewide rate.² Inch foot charges were then equalized at the level
2 necessary to recover the class's overall recommended revenue requirement.
3
4
5

6 **Q. MR. KALCIC, HOW DID YOU DERIVE THE RATEPAYER ADVOCATE'S**
7 **RECOMMENDED PRIVATE FIRE PROTECTION CHARGES?**

8 A. As shown on Schedule BK-3, page 1 of 2, the Company's current Homestead
9 connection charges are considerably lower than the corresponding non-Homestead
10 charges. Accordingly, I applied no decrease to the Company's present Homestead
11 connection charges. Instead, I proportionately reduced the current level of non-
12 Homestead connections charges to arrive at an aggregate private fire protection decrease
13 of 9.1%.
14

15 **Q. DO YOU RECOMMEND ANY CHANGES TO THE COMPANY'S**
16 **PROPOSED MISCELLANEOUS SERVICE CHARGES?**

17 A. No. The Company did not propose any changes to its Miscellaneous Service charges
18 and I have likewise left all such charges unchanged.
19

² The uniform hydrant charge was subsequently increased by 0.7% to minimize rounding error within the class.

1 **Q. HAVE YOU PROVIDED A SUMMARY OF YOUR RECOMMENDED**
2 **GENERAL METERED SERVICE RATES?**

3 A. Yes. Schedule BK-4 provides a comparison of present and recommended GMS
4 charges, by rate district.

5

6 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

7 A. Yes.

APPENDIX

Qualifications of Brian Kalcic

Mr. Kalcic graduated from Illinois Benedictine College with a Bachelor of Arts degree in Economics in December, 1974. In May, 1977 he received a Master of Arts degree in Economics from Washington University, St. Louis. In addition, he has completed all course requirements at Washington University for a Ph.D. in Economics.

From 1977 to 1982, Mr. Kalcic taught courses in economics at both Washington University and Webster University. The courses that he taught included Microeconomic and Macroeconomic Theory, Labor Economics and Public Finance.

During 1980 and 1981, Mr. Kalcic was a consultant to the Equal Employment Opportunity Commission, St. Louis District Office. His responsibilities included data collection and organization, statistical analysis and trial testimony.

From 1982 to 1996, Mr. Kalcic was employed by the firm of Cook, Eisdorfer & Associates, Inc.. During that time, he participated in the analysis of electric, gas and water utility rate case filings. His primary responsibilities included cost-of-service and economic analysis, model building, and statistical analysis.

In March 1996, Mr. Kalcic founded Excel Consulting, a consulting practice which provides business and regulatory analysis.

Mr. Kalcic has previously testified before the state regulatory commissions of Delaware, Kentucky, Maine, Massachusetts, Minnesota, Missouri, New Jersey, New York, Ohio, Oregon, Pennsylvania, Texas, and the Bonneville Power Administration.

The Mount Holly Water Company
 Company Proposed Distribution of its
 Requested Adjustment to Total Revenue

<u>Line</u>	<u>Description</u>	<u>Present Revenue</u> (1)	<u>Proposed Increase</u>		
			<u>Amount</u> (2)	<u>Percent</u> (3)	<u>Index</u> (4)
	<u>General Service</u>				
1	Mount Holly	\$5,704,174	\$1,662,835	29.15%	105
2	Plumstead	\$151,585	\$46,503	30.68%	110
3	Southampton	\$122,427	\$34,054	27.82%	100
4	Homestead	<u>\$362,641</u>	<u>\$20,709</u>	5.71%	21
5	Subtotal GMS	\$6,340,827	\$1,764,101	27.82%	100
6	Public Fire Service	\$485,914	\$135,398	27.86%	100
7	Private Fire Service	<u>\$105,850</u>	<u>\$29,469</u>	27.84%	100
8	Subtotal Sales	\$6,932,591	\$1,928,968	27.82%	100
9	Other	<u>\$1,225</u>	<u>\$0</u>	0.00%	
10	Total Revenue	\$6,933,816	\$1,928,968	27.82%	

Source: Exhibit P-2
 Sch. 5,
 Page 1 of 2

The Mount Holly Water Company
Ratepayer Advocate Distribution of its
Recommended Adjustment to Total Revenue

<u>Line</u>	<u>Description</u>	Present* <u>Revenue</u> (1)	Recommended Increase		
			<u>Amount</u> (2)	<u>Percent</u> (3)	<u>Index</u> (4)
	<u>General Service</u>				
1	Mount Holly	\$5,704,174	(\$479,315)	-8.40%	92
2	Plumstead	\$151,585	(\$10,900)	-7.19%	79
3	Southampton	\$122,427	\$0	0.00%	0
4	Homestead	<u>\$362,641</u>	<u>(\$90,537)</u>	-24.97%	273
5	Subtotal GMS	\$6,340,827	(\$580,752)	-9.16%	100
6	Public Fire Service	\$485,914	(\$44,508)	-9.16%	100
7	Private Fire Service	<u>\$105,850</u>	<u>(\$9,694)</u>	-9.16%	100
8	Subtotal Sales	\$6,932,591	(\$634,954)	-9.16%	100
9	Other	<u>\$13,179</u>	<u>\$0</u>	0.00%	
10	Total Revenue	\$6,945,770	(\$634,954)	-9.14%	

(\$635,000) Target
\$46 Rounding

* Source: Sch. RJH-7

The Mount Holly Water Company
Ratepayer Advocate Recommended Rates and
Proof of Revenue

	Billing Determinants	Present		Recommended		% Increase
		Rate	Revenue	Rate	Revenue	
	(1)	(2)	(3)	(4)	(5)	(6)
Gen Metered Serv.						
<u>Mt. Holly</u>						
Facilities Charge			\$1,220,385		\$1,220,385	0.00%
Usage	1,367,568	\$3.2800	\$4,485,623	\$2.9294	\$4,006,154	-10.69%
Billing Adj.			(\$1,834)		(\$1,680)	-8.40%
subt			\$5,704,174		\$5,224,859	-8.40%
<u>Plumstead</u>						
Facilities Charge			\$34,459		\$34,459	0.00%
Usage	36,262	\$3.2300	\$117,126	\$2.9294	\$106,226	-9.31%
subt			\$151,585		\$140,685	-7.19%
<u>Southampton</u>						
Facilities Charge			\$36,393		\$36,393	0.00%
Usage	35,260	\$2.4400	\$86,034	\$2.4400	\$86,034	0.00%
subt			\$122,427		\$122,427	0.00%
<u>Homestead</u>						
Facilities Charge			\$72,582		\$65,365	-9.94%
Usage	70,574	\$4.1100	\$290,059	\$2.9294	\$206,739	-28.73%
subt			\$362,641		\$272,104	-24.97%
Public Fire						
<u>Company-Wide</u>						
Hydrants	1,088	\$11.3750	\$49,510	\$11.4536	\$49,846	0.68%
Inch Feet	8,170,113	\$0.0513	\$419,127	\$0.0459	\$375,008	-10.53%
subt			\$468,637		\$424,854	-9.34%
<u>Homestead</u>						
Hydrants	45	\$25.8250	\$4,649	\$11.4536	\$2,062	-55.65%
Inch Feet	315,697	\$0.0400	\$12,628	\$0.0459	\$14,490	14.75%
subt			\$17,277		\$16,552	-4.20%
Private Fire						
<u>Company-Wide</u>						
2"	6	\$31.71	\$761	\$28.49	\$684	-10.12%
3"	4	\$71.61	\$1,146	\$64.34	\$1,029	-10.21%
4"	21	\$157.54	\$13,233	\$141.55	\$11,890	-10.15%
6"	40	\$262.43	\$41,989	\$235.79	\$37,726	-10.15%
8"	21	\$390.55	\$32,806	\$350.91	\$29,476	-10.15%
12"	1	\$866.65	\$3,467	\$778.69	\$3,115	-10.15%
Hydrants	101	\$13.185	\$5,327	\$13.185	\$5,327	0.00%
subt			\$98,729		\$89,247	-9.60%
<u>Homestead</u>						
8"	1	\$258.26	\$1,033	\$258.26	\$1,033	0.00%
12"	1	\$581.08	\$2,324	\$581.08	\$2,324	0.00%
subt			\$3,357		\$3,357	0.00%
<u>Small-GMS Rate</u>						
5/8"	28	\$15.85	\$1,775	\$15.85	\$1,775	0.00%
5/8" - Homestead	1	\$17.60	\$70	\$15.85	\$63	-10.00%
Usage	585	\$3.2800	\$1,919	\$2.9294	\$1,714	-10.68%
subt			\$3,764		\$3,552	-5.63%
Tot. Rate Revenues			\$6,932,591		\$6,297,637	-9.16%

The Mount Holly Water Company
Ratepayer Advocate Recommended Rates and
Proof of Revenue

Facilities Charge Detail	Number of Accounts (1)	Present		Recommended		% Increase (6)
		Rate	Revenue	Rate	Revenue	
		(2)	(3)	(4)	(5)	
<u>Mt. Holly District</u>						
5/8"	12,041	\$15.85	\$763,399	\$15.85	\$763,399	0.00%
3/4"	113	\$23.78	\$10,749	\$23.78	\$10,749	0.00%
1"	1,351	\$39.63	\$214,161	\$39.63	\$214,161	0.00%
1 1/2"	97	\$79.26	\$30,753	\$79.26	\$30,753	0.00%
2"	180	\$126.82	\$91,310	\$126.82	\$91,310	0.00%
3"	44	\$237.78	\$41,849	\$237.78	\$41,849	0.00%
4"	32	\$396.30	\$50,726	\$396.30	\$50,726	0.00%
6"	3	\$792.61	\$9,511	\$792.61	\$9,511	0.00%
8"	0	\$1,268.13	\$0	\$1,268.13	\$0	0.00%
12"	1	\$1,981.50	\$7,926	\$1,981.50	\$7,926	0.00%
subt	13,862		\$1,220,385		\$1,220,385	0.00%
<u>Plumstead</u>						
5/8"	412	\$15.85	\$26,121	\$15.85	\$26,121	0.00%
3/4"	2	\$23.78	\$190	\$23.78	\$190	0.00%
1"	19	\$39.63	\$3,012	\$39.63	\$3,012	0.00%
1 1/2"	3	\$79.26	\$951	\$79.26	\$951	0.00%
2"	2	\$126.82	\$1,015	\$126.82	\$1,015	0.00%
6"	1	\$792.61	\$3,170	\$792.61	\$3,170	0.00%
subt	439		\$34,459		\$34,459	0.00%
<u>Southampton</u>						
5/8"	448	\$15.85	\$28,403	\$15.85	\$28,403	0.00%
3/4"	1	\$23.78	\$95	\$23.78	\$95	0.00%
1"	25	\$39.63	\$3,963	\$39.63	\$3,963	0.00%
1 1/2"	3	\$79.26	\$951	\$79.26	\$951	0.00%
2"	4	\$126.82	\$2,029	\$126.82	\$2,029	0.00%
3"	1	\$237.78	\$951	\$237.78	\$951	0.00%
subt	482		\$36,393		\$36,393	0.00%
<u>Homestead</u>						
5/8"	1,023	\$17.60	\$72,019	\$15.85	\$64,858	-9.94%
2"	1	\$140.80	\$563	\$126.82	\$507	-9.93%
subt	956		\$72,582		\$65,365	-9.94%
Total Facilities Revenue			\$1,363,819		\$1,356,602	-0.53%

Summary	Present Revenue	Recommended Revenue	% Increase
GMS	\$6,340,827	\$5,760,075	-9.16%
Public Fire	\$485,914	\$441,406	-9.16%
Private Fire	\$105,850	\$96,156	-9.16%
Subtotal	\$6,932,591	\$6,297,637	-9.16%
Misc Revenue	\$13,179	\$13,179	0.00%
TOTAL	\$6,945,770	\$6,310,816	-9.14%
		Target	\$6,310,770
		Rounding	\$46

The Mount Holly Water Company
 Comparison of General Metered Service
 Present and Recommended Rates

Line	Quarterly Facilities Charge	Present	Recommended	Increase	
		Rate	Rate	Amount	%
		(1)	(2)	(3)	(4)
<u>Mt. Holly/Plumst.</u>					
<u>Southampton</u>					
1	5/8"	\$15.85	\$15.85	\$0.00	0.00%
2	3/4"	\$23.78	\$23.78	\$0.00	0.00%
3	1"	\$39.63	\$39.63	\$0.00	0.00%
4	1 1/2"	\$79.26	\$79.26	\$0.00	0.00%
5	2"	\$126.82	\$126.82	\$0.00	0.00%
6	3"	\$237.78	\$237.78	\$0.00	0.00%
7	4"	\$396.30	\$396.30	\$0.00	0.00%
8	6"	\$792.61	\$792.61	\$0.00	0.00%
9	8"	\$1,268.13	\$1,268.13	\$0.00	0.00%
10	10"	\$1,585.21	\$1,585.21	\$0.00	0.00%
11	12"	\$1,981.50	\$1,981.50	\$0.00	0.00%
12	16"	\$3,963.03	\$3,963.03	\$0.00	0.00%
<u>Homestead</u>					
13	5/8"	\$17.60	\$15.85	(\$1.75)	-9.94%
14	3/4"	\$26.40	\$23.78	(\$2.62)	-9.92%
15	1"	\$44.00	\$39.63	(\$4.37)	-9.93%
16	1 1/2"	\$88.00	\$79.26	(\$8.74)	-9.93%
17	2"	\$140.80	\$126.82	(\$13.98)	-9.93%
<u>Consumption</u>					
<u>Charge (1000 G.)</u>					
18	Mount Holly	\$3.2800	\$2.9294	(\$0.3506)	-10.69%
19	Plumstead	\$3.2300	\$2.9294	(\$0.3006)	-9.31%
20	Southampton	\$2.4400	\$2.4400	\$0.0000	0.00%
21	Homestead	\$4.1100	\$2.9294	(\$1.1806)	-28.73%